

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 1999-006-G - ORDER NO. 1999-905
DECEMBER 28, 1999

IN RE: South Carolina Electric and Gas Company) ORDER ✓ 00
Annual Review of the Purchased Gas) DENYING
Recovery Procedures, Gas Purchasing) RECONSIDERATION
Policies and Setting Cost of Gas for Billing)

This matter comes before the Public Service Commission of South Carolina (the Commission) on the Petition for Reconsideration of Order No. 1999-782 filed by the Consumer Advocate for the State of South Carolina (the Consumer Advocate). This Order involved the annual review of the South Carolina Electric & Gas Company (SCE&G or the Company) Purchased Gas Adjustment (PGA) and gas purchasing practices. Because of the reasoning stated below, the Petition is denied.

The gravamen of the first allegation of the Petition is that this Commission failed, in Order No. 1999-782 to make findings of fact concerning the economic side of the prudence issue. The Consumer Advocate states that neither reliability, nor the need for additional capacity was contested. The Consumer Advocate further notes that the thrust of his witness' testimony had to do with the reasonableness of the price that SCE&G is paying for its gas supplies. Finally, the Consumer Advocate states that there is no evidence in the record to support the conclusion that SCE&G has been economically prudent in its gas purchasing practices.

First, we note that the concepts of economic prudence and reliability are inextricably linked. If a supply of gas is cheaper than what is presently obtained, but that supply is unreliable, the fact that the gas is cheaper is of no consequence, because that supply is unsuitable for the Company's customers. The Consumer Advocate has made no showing by any credible evidence that the Company's capacity requirements could be met in a reliable manner from any source other than that utilized by the Company, particularly in light of the Company's use of South Carolina Pipeline's facilities to connect points on its dispersed distribution system. (Prefiled testimony of Company witness Kissam at 3.)

It is true that there may be times (although such times are not attested to by the Consumer Advocate's witness) that the Company may be able to buy some released surplus gas at a spot price lower than that being paid by SCE&G, but such random opportunities do not provide a reliable supply of gas on the basis of which the Company can consistently meet the requirements of its core market customers.

In any event, we disagree with the Consumer Advocate's assertions that there were no findings of fact in Order No. 1999-782 with regard to the economic side of the prudence issue, per se. We noted in that Order that SCE&G purchases its gas under tariffs approved by this Commission. (Order No. 1999-782 at 10.) Approval by this Commission ensures that SCE&G is purchasing gas at just and reasonable rates. Further economic analysis was provided by reference to the increase in cost to SCE&G's customers if SCE&G had to duplicate staffing and equipment for the purchase, transportation, and exchange of physical natural gas. (Kissam Direct at 4.) We also made reference to the adequate supplies of gas presently provided by SCPC at reasonable cost. (Sires at 4.)

However, even further analysis of the economic prudence evidence submitted in this case leads us to the conclusion that the Company's purchasing practices are prudent in the economic sense. First, the evidence of record reflects that the price the Company pays for gas is the NYMEX price which establishes the basic market price for the commodity. In addition to the NYMEX established price, the Company pays transportation costs for the delivery of gas from the wellhead to the Company's distribution system. These transportation costs are regulated at the interstate level by the Federal Energy Regulatory Commission (FERC), and at the intrastate level by this Commission. (Testimony of Company witness Scruggs at 4-5.) Therefore, the prices that SCE&G pays for gas are reasonable, and are subject to regulatory scrutiny at both the Federal and State levels.

Next, economic prudence of the Company's gas purchases is demonstrated by the testimony of SCE&G rebuttal witness Julius Wright, who, we believe rebuts the testimony of Consumer Advocate witness Hornsby. Hornby presented an analysis which concluded that SCE&G's gas cost recovery rate is much higher than the prices for firm gas supply service charged by SCANA Energy Marketing and other gas marketers in Georgia. (Testimony of Hornby at 9-10.) Wright generally noted that, although such a rate comparison is very difficult at best, when one compares the total annual bill paid by SCE&G residential customers to the same total annual bill in Georgia, SCE&G's South Carolina ratepayers are paying comparable or lower rates. (Testimony of Wright at 3.)

There are a number of factors that make the comparison difficult, such as differences in the natural gas marketplace served by different suppliers, differing mixes of customers, differing load factors, differing Company assets, differing types of transportation contracts, differing types of gas supplies, and a differing regulatory environment. (Wright at 4.)

In the present case, Consumer Advocate witness Hornby attempted to compare gas costs in regulated South Carolina with those in non-regulated Georgia. (Testimony of Hornby at 5.) In Georgia, the opening of the non-regulated Georgia market in October of 1998 apparently produced a number of promotions and other marketing activities. Prices below the cost of gas apparently resulted. (Wright at 5.) Since that time, prices have increased, however, we agree with Wright that it was inappropriate for Hornby to compare gas costs from Georgia's immature and changing natural gas market to SCE&G's regulated annual volumetric charge in South Carolina. (Id.)(See Hornby testimony at 5-6.) We do not believe that this was an accurate basis to conclude that SCE&G could obtain gas in South Carolina in a more economically reasonable manner. Monthly rates in Georgia, which are shown to be fluctuating and generally increasing in Exhibit JAW-2 (Hearing Exhibit 7) were incorrectly compared by Hornby with a levelized annual rate in South Carolina. (Wright at 7.) However, in any event, Wright's comparison of total annual bills shows comparable bills in South Carolina, or even bills lower than those in Georgia. (Wright at 3.) Therefore, Hornby's faulty Georgia comparison failed before, and still fails to convince us that SCE&G could be obtaining more inexpensive gas than it already does here in South Carolina.

This conclusion is further supported by the rebuttal testimony of Company witness Bailey. Bailey, at 1, rebuts Hornby's specific numeric calculations as to degree days. Bailey, at 2, also points out the fact that SCE&G's customers are more widely dispersed than those in Georgia, a fact which has ratemaking and cost implications not recognized by Hornby.

In sum, we believe our finding as to prudence in our first Order in this case was proper. The Consumer Advocate has simply made no credible showing that SCE&G's purchasing practices were imprudent in an economic sense. As stated above and in Order No. 1999-782, we

believe that the Company demonstrated the prudence of its gas purchasing practices, in both an economic and a reliability sense.

We also believe we comported with all pertinent South Carolina case law in the drafting of that Order. There was no mere recitation of testimony, followed by a conclusion. We backed up our conclusions by specific citations to the testimony in the record of this case, as we have done in this Order. Disagreement with that testimony by the Consumer Advocate does not make such testimony insufficient to support our conclusions.

The second allegation of error by the Consumer Advocate refers to our rejection of the recommendation of Consumer Advocate witness Hornby to approve the Company's acquisition of additional capacity from South Carolina Pipeline Corporation (SCPC) for one year only, rather than the Company proposed five years, and also rejection of Hornby's RFP proposal for capacity needs.

Addressing the second proposition on the RFP first, we cited in Order No. 1999-782 to the rebuttal testimony of Company witness Kissam at 6-7 for the proposition that an RFP for pipeline capacity does not have merit. (See Order No. 1999-782 at 12-13.) The reason is that a replying party would purchase the gas supply at market rates, just as is done now for SCE&G. This theoretical supply would be transported over either the Transco or Southern Natural interstate pipelines, and those interstate transportation rates would be paid in any event. Therefore, any Company submitting an RFP would be faced with the same costs as presently incurred by SCE&G, which renders an RFP process meaningless.

Next, we address the Consumer Advocate's objection to our approval of the additional capacity of 42,225 dekatherms per day for the full five year period, and not the one year recommended by the Consumer Advocate. Heretofore, this Commission approved the Transco-

Sunbelt capacity expansion requested by South Carolina Pipeline to meet anticipated gas supply requirements. That capacity is only in part to meet SCE&G's demands. In the present docket, the Company presented testimony about a market with increased gas demands, coupled with the decommissioning of one propane air facility and the de-rating of two others. See testimony of Company witnesses Bailey at 6 and Kissam at 6-8. Consequently, the conclusion by this Commission that the Company has acted prudently in securing reasonably anticipated requirements through its contract with SCPC is amply supported by the record in this case.

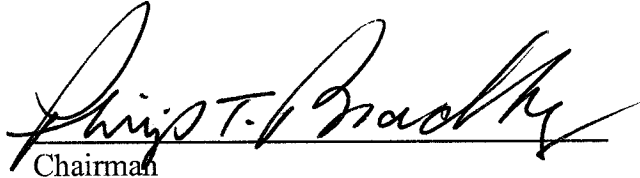
In addition, approving this contract for only one year brings into question the availability of the gas supply after that period for the Company's firm customers' supply needs. As Kissam testified, the gas supply might not be available after that time. See Kissam direct testimony at 6-8 and Kissam rebuttal testimony at 6. As has been previously stated, there is no question that, at various times, gas may be available from various sources that may be more inexpensive than that presently obtained. However, SCE&G has no assurance as to the reliability of the provision of that gas on a long-term basis. Further, as Kissam noted at 6 of his rebuttal testimony, SCE&G made the request for additional capacity for a 5 year term with SCPC in order to assure that the additional capacity would be available for its firm customers' supply needs. If any other resale customer of SCPC were to request additional capacity from SCPC, SCE&G then might not be able to secure enough capacity from SCPC. In other words, according to Kissam, if SCE&G was renewing its capacity needs on an annual basis and, before SCE&G had made its annual request to SCPC, another resale customer requested firm capacity, SCE&G then might not have available from SCPC enough capacity to transport its gas supply to firm customers during peak periods. Full Commission jurisdiction, and annual oversight would continue for this decision.

In our opinion, approval of the additional capacity for the full 5 year period assures a reliable supply for the full period. We have no assurances that SCE&G could find a reliable supply after a one year period as proposed by the Consumer Advocate.

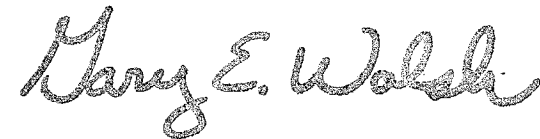
Again, we disagree with the Consumer Advocate's characterization of our initial Order in this area as being a mere recitation of testimony with conclusions. We believe that we fully documented our original conclusions, and are in compliance with all relevant case law. However, we have recited additional evidence in the record to support our original conclusions in our first Order in this matter.

Because of this reasoning, the Consumer Advocate's Petition for Reconsideration is denied and dismissed. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:


Chairman

ATTEST:



Executive Director

(SEAL)